

Message Text

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ACTION PM-04

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EB-07 OMB-01 TRSE-00 AID-05 IGA-02 IO-11 COME-00

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R 300844Z JAN 76

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 1732

SECDEF WASHDC

INFO JCS WASHDC

CINCPAC

CINCPACREPHIL

C O N F I D E N T I A L SECTION 1 OF 2 MANILA 1607

E.O. 11652: GDS

TAGS: MASS, RP

SUBJECT: FY77 MILITARY SECURITY ASSISTANCE

CINCPAC FOR POLAD

REF: STATE 17013, 75 MANILA A-309

SUMMARY: THE PHILIPPINE GOVERNMENT CONTINUES TO LOOK UPON THE MAP GRANT PROGRAM AS "UNOFFICIAL PAYMENT" FOR THE MILITARY FACILITIES WE USE IN THE PHILIPPINES. IN THE PAST, ANNUAL MAP GRANTS IN THE RANGE OF \$20 MILLION ONLY MARGINALLY SATISFIED PHILIPPINE EXPECTATIONS IN THIS REGARD. AS MAP GRANT LEVELS HAVE DECLINED AND BEEN ERODED BY INFLATION, THE GOP HAS SHOWN SERIOUS CONCERN. FMS CREDIT IS A USEFUL SUPPLEMENT TO THE MAP GRANT PROGRAM BUT HAS CLEAR LIMITATIONS. FMS CREDIT IN AMOUNTS EXCEEDING \$30 MILLION ANNUALLY WOULD PLACE AN ADDITIONAL AND UNDESIRABLE DEBT BURDEN ON FUTURE GOP BUDGETS GIVEN CURRENT BALANCE OF PAYMENTS TRENDS (SEE REF A-309). IN SUM, FMS CREDIT IS A USEFUL COMPLEMENT

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TO GRANT ASSISTNACE BUT AN INADEQUATE SUBSTITUTE. FMS

CREDIT IN ANY AMOUNT WOULD NOT BE ACCEPTED BY THE GOP AS SATISFACTORY "PAYMENT" FOR THE MILITARY FACILITIES WE USE IN THE PHILIPPINES. MAP GRANT ASSISTANCE OR OTHER FIXED ANNUAL PAYMENT IN THE RANGE OF \$25-30 MILLION IS REQUIRED.
END SUMMARY.

1. NEED FOR SECURITY ASSISTANCE: GRANT MILITARY ASSISTANCE IS THE IMPLICIT QUID PRO QUO FOR U.S. USE OF MILITARY FACILITIES IN THE PHILIPPINES. A PARAMOUNT U.S. POLICY OBJECTIVE IN THE PHILIPPINES IS CONTINUED ACCESS TO THESE STRATEGICALLY IMPORTANT INSTALLATIONS. THE GRANT MILITARY ASSISTANCE PROGRAM, SO LONG AS IT PROVIDES A REASONABLY SOLID ANNUAL "PAYMENT," PLAYS A KEY ROLE IN ATTAINING THIS OBJECTIVE.

THE GOP IS RESOLVED TO PUSH FORWARD WITH ITS SELF-RELIANCE DEVELOPMENT PLAN WHICH EMPHASIZES AN EXPANDED MILITARY AND GREATER LOCAL PRODUCTION OF MILITARY MATERIAL. THE CONTINUING STRUGGLE WITH MUSLIM INSURGENTS IN THE SOUTHERN PHILIPPINES AND GENERAL UNCERTAINTIES IN THE REGION AFTER THE COLLAPSE OF INDOCHINA HAVE UNDERSCORED GOP DETERMINATION TO ENLARGE AND STRENGTHEN ITS MILITARY FORCES WHICH ARE RELATIVELY SMALL (122,000) AND EQUIPPED LARGELY WITH INCREASINGLY DECREPIT EQUIPMENT.

WITHIN THE FORCE STRUCTURE OF THE PHILIPPINE ARMED FORCES (AFP) THERE ARE GROWING OPPORTUNITIES FOR THE U.S. TO BROADEN CONTACT AND INFLUENCE WITH KEY OFFICERS THROUGH MAP TRAINING PROGRAMS. THE EXPANDED TRAINING PROGRAM FOR FY77 WILL HELP MEET THESE OPPORTUNITIES.

2. EFFECTIVENESS OF SECURITY ASSISTANCE: THE GRANT MILITARY ASSISTANCE PROGRAM, SUPPLEMENTED BY EXCESS DEFENSE ARTICLES AND CAREFULLY DETERMINED AMOUNTS OF FMS CREDIT, HAS MARGINALLY SATISFIED GOP EXPECTATIONS. AS GRANT ASSISTANCE LEVELS HAVE DIMINISHED AND NOW SHOW SIGNS OF DISAPPEARING ALTOGETHER, THE GOP HAS BEEN REEVALUATING THE ENTIRE SECURITY ASSISTANCE PICTURE, INCLUDING THE ARRANGEMENTS GOVERNING OUR USE OF MILITARY FACILITIES IN THE PHILIPPINES.

3. INTER-RELATIONSHIP AMONG VARIOUS ELEMENTS OF SECURITY:
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THE SECURITY ASSISTANCE PROGRAM FOR THE PHILIPPINES INCLUDES GRANT AID AS THE ESSENTIAL CORE ELEMENT, SUPPLEMENTED BY EXCESS DEFENSE ARTICLES, CAREFULLY PRESCRIBED AMOUNTS OF FMS CREDIT, AND FMS SALES. THE FOUNDATION OF THE OVERALL PROGRAM IS GRANT ASSISTANCE. WHEN THE ANNUAL LEVEL OF GRANT ASSISTANCE DROPS BELOW \$25-30 MILLION OUR INTERESTS IN THE MILITARY FACILITIES HERE ARE JEOPARDIZED. EDA, FMS CREDIT AND FMS SALES ARE USEFUL, COMPLEMENTARY ADDITIONS TO THE

BASIC GRANT PROGRAM BUT THEY CANNOT REPLACE IT.

4. IMPACT OF U.S. ECONOMIC ASSISTANCE: U.S. ECONOMIC ASSISTANCE TO THE PHILIPPINES PLAYS AN IMPORTANT ROLE IN STRENGTHENING THE PHILIPPINE ECONOMY AND IMPROVING THE GOP'S ABILITY TO FUND DEFENSE EXPENDITURES. ECONOMIC ASSISTANCE DOES NOT BY ITS NATURE FOCUS SPECIFICALLY ON MILITARY OR OTHER SECURITY REQUIREMENTS.

THE BUDETARY REQUIREMENTS OF THE PHILIPPINE MILITARY HAVE EXPANDED RAPIDLY OVER THE PAST SEVERAL YEARS. THE AFP IS FIGHTING A DEFFICULT WAR IN THE SOUTH AND AT THE SAME TIME PLAYING EVER MORE IMPORTANT MANAGERIAL, ECONOMIC AND DEVELOPMENT ROLES UNDER MARTIAL LAW. GOP DEFENSE EXPENDITURES ARE MOUNTING RAPIDLY. U.S. ECONOMIC ASSISTANCE HELPS THE PHILIPPINE ECONOMY ABSORB THESE COSTS. CONVERSELY, CUTS IN U.S. ECONOMIC ASSISTANCE WOULD CLEARLY IMPACT ON OVERALL GOP BUDGET PLANNING, INCLUDING THE DE-DENSE PORTION.

5. THIRD COUNTRY MILITARY ASSISTANCE. GRANT MILITARY ASSISTANCE TO THE PHILIPPINES FROM THIRD COUNTRIES HAS BEEN MINIMAL, E.G., SIX SMALL PATROL CRAFT FROM AUSTRALIA, ONE SEARCH AND RESCUE CRAFT FROM JAPAN. UNDER THE WORLD WAR II REPARATION AGREEMENT WITH JAPAN, THE PHILIPPINES HAS RECEIVED A VARIETY OF EQUIPMENT AND MATERIAL, INCLUDING SOME TRUCKS, COMMERCIAL TYPE COMMUNICATIONS EQUIPMENT AND A FEW UNARMED T-34 TRAINERS. THE MILITARY/SECURITY PORTION OF THE JAPANESE REPARATIONS WILL TOTAL ABOUT \$100 MILLION WHEN THE PROGRAM TERMINATES THIS YEAR AS EXPECTED.

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FM AMEMBASSY MANILA
TO SECSTATE WASHDC 1733
SECDEF WASHDC
INFO JCS WASHDC
CINCPAC
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C O N F I D E N T I A L SECTION 2 OF 2 MANILA 1607

THE GOP HAS OVER THE PAST TWO YEARS MADE AN INCREASING NUMBER OF MILITARY PURCHASES FROM THIRD COUNTRIES. THESE PURCHASES HAVE INCLUDED TRAINING AIRCRAFT AND HOWITZERS FROM ITALY, LIGHT TANKS FROM THE U.K., HELICOPTERS FROM GERMANY, PATROL BOATS FROM JAPAN, MORTARS FROM BELGIUM, AND ARMS AND PATROL CRAFT FROM SINGAPORE. THESE CASH PURCHASES FOR MILITARY EQUIPMENT HAVE SATISFIED URGENT NEEDS WHICH THE USG DID NOT HAVE THE CAPABILITY TO FULFILL. THE GOP PREFERS TO BUY AMERICAN EQUIPMENT BECAUSE OF ITS FAMILIARITY, HIGH QUALITY, DEPENDABILITY, AND MAINTENANCE SUPPORT. NEVERTHELESS, WHEN U.S. EQUIPMENT IS UNAVAILABLE OR THE U.S. RESPONSE IS TOO SLOW, THE GOP WILL SEEK TO BUY EQUIPMENT WHERE IT CAN.

6. THIRD COUNTRY ECONOMIC ASSISTANCE: JAPAN IS THE PRINCIPAL THIRD COUNTRY ECONOMIC DONOR. REPARATIONS, SUPPLEMENTED BY LOANS RANGING UP TO \$80 MILLION ANNUALLY, HAVE HAD IMPORTANT IMPACT ON THE PHILIPPINE ECONOMY. THE CONSTABULARY (PC) RECEIVES \$10 MILLION ANNUALLY FROM JAPANESE REPARATIONS, AN IMPORTANT SOURCE OF FOREIGN EXCHANGE FOR CONFIDENTIAL

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PC PURCHASES.

7. INTERNATIONAL FINANCIAL INSTITUTIONS OF THE WORLD BANK

CONSULTATIVE GROUP FOR THE PHILIPPINES COORDINATES ECONOMIC ASSISTANCE FROM NATIONAL AND INTERNATIONAL DONORS. THE WORLD BANK IS THE MAJOR SINGLE DONOR, WITH JAPAN, THE UNITED STATES, THE ASIAN DEVELOPMENT BANK, THE UNITED NATIONS DEVELOPMENT FUND AND SEVERAL OTHER COUNTRIES PROVIDING SHARES IN THE BANK'S CONSORTIUM ACTIVITIES. IN FY75 THESE DONORS COMMITTED \$339.6 MILLION IN ECONOMIC ASSISTANCE TO THE PHILIPPINES, WITH THE U.S. SHARE TOTALLING ABOUT 13.3

PERCENT. THIS ASSISTANCE PROMOTES GROWTH OF PHILIPPINE ECONOMIC INFRASTRUCTURE AND HELPS COVER DEFICITS IN EXTERNAL ACCOUNTS.

AT THE END OF 1975 GOP EXTERNAL DEBT WAS \$3,995 MILLION, OR 37.4 PERCENT OVER THE 1974 YEAR END LEVEL. GROSS INTERNATIONAL RESERVES FELL TO \$1,080 MILLION, MORE THAN 7:3 PERCENT LOWER THAN THE 1974 LEVEL. FINAL FIGURES ON NET RESERVES AT THE END OF 1975 ARE NOT YET AVAILABLE. THERE WAS A 131 PERCENT INCREASE IN BORROWING IN 1975, WHICH RAISED THE DEBT SERVICE BURDEN TO ABOUT 16/2 PERCENT OF CURRENT ACCOUNTED EARNINGS. AT THIS RATE, DEBT SERVICE WILL BE SEVERELY STRAINED OVER THE NEXT FEW YEARS IF THE WORLD MARKET FOR PHILIPPINE COMMODITIES REMAINS DEPRESSED.

8. CONCLUSIONS:

A. U.S. SECURITY ASSISTANCE IS NEEDED TO ASSIST AFP MODERNIZATION, SELF-RELIANCE AND EXPANSION OBJECTIVES AS WELL AS FULFILLING INTERNAL SECURITY REQUIREMENTS.

B. THERE IS A SPECIAL NEED FOR TRAINING ASSISTANCE TO THE AFP WHICH IS AN IMPORTANT ELEMENT IN OUR RELATIONS
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WITH THE PHILIPPINES.

C. U.S. ECONOMIC ASSISTANCE, ALONG WITH OTHER BILATERAL AND MULILATERAL ASSISTANCE, SUPPORTS THE VIABILITY OF THE ECONOMY AND STRENGTHENS THE ABILITY OF THE GOP TO MEET ITS VARIOUS BUDGETARY REQUIREMENTS INCLUDING MILITARY.

D. WE ARE SKATING ON THIN ICE AT OUR MILITARY FACILITIES IN THE PHILIPPINES WHEN OUR GRANT ASSISTANCE PROGRAM DROPS BELOW \$25-30 MILLION. FMS CREDIT CAN HELP PATCH OVER MINOR SHORTFALLS IN MAP LEVELS BUT HAS SHARP ECONOMIC LIMITATIONS IN AMOUNTS OVER \$30 MILLION. THE GOP WILL NOT ACCEPT FMS CREDIT AS A SUBSTITUTE FOR GRANT ASSISTANCE IN PROVIDING THE QUID PRO QUO FOR THE MILITARY FACILITIES WE USE HERE. IT IS IMPERATIVE THAT ANNUAL GRANT ASSISTANCE OR OTHER FIXED GRANT PAYMENT IN THE RANGE OF \$25-30 MILLION BE PROVIDED TO THE GOP TO INSURE THAT OUR ESSENTIAL INTERESTS IN THESE MILITARY FACILITIES ARE PRESERVED. SULLIVAN

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